AR29

Canadian Manoir

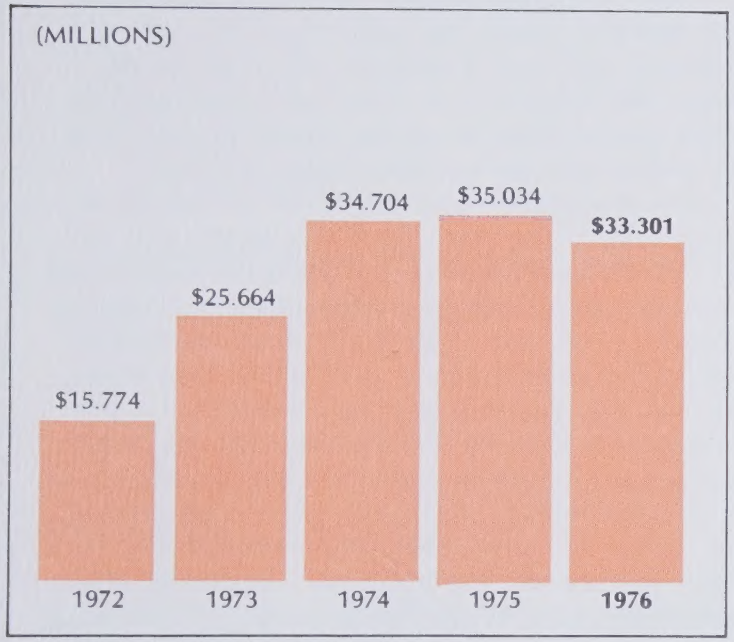
INDUSTRIES LIMITED

Annual Report 1976

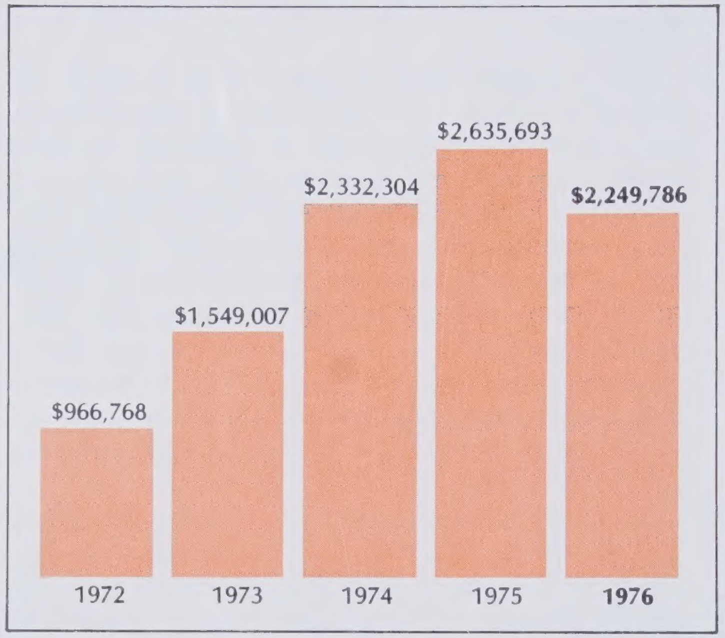
Five-year statistical review

	1972	1973	1974	1975	**1976**
Revenue	$15,774,390	$25,664,024	$34,704,345	$35,033,791	**$33,300,981**
Income before Extraordinary Item	966,768	1,549,007	2,332,304	2,635,693	**2,325,529**
Earnings Per Share before Extraordinary Item	59¢	94¢	1.41	1.59	**1.40**
Earnings Per Share after Extraordinary Item	59¢	94¢	1.41	1.59	**1.35**
Working Capital	2,833,820	3,792,839	5,250,736	6,039,153	**7,893,151**
Tangible Equity Per Share	2.33	2.74	3.95	5.28	**6.31**

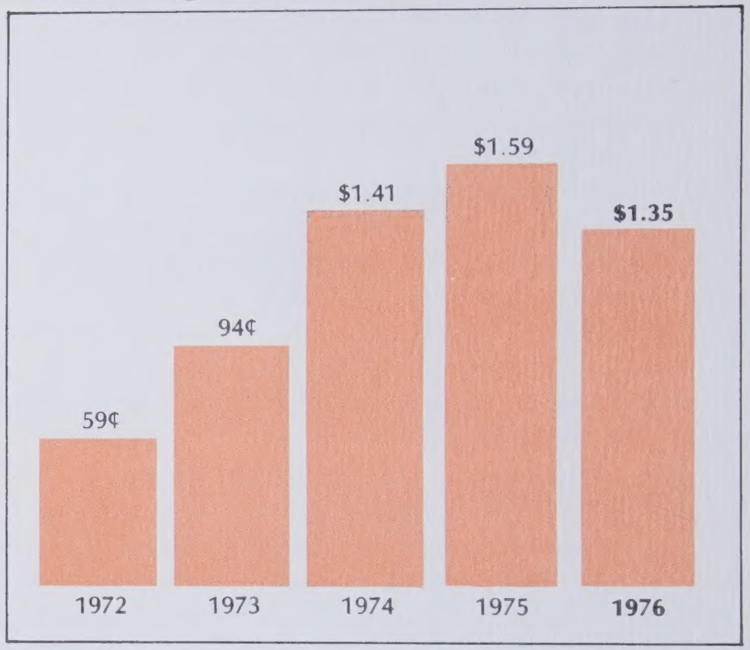
Revenue



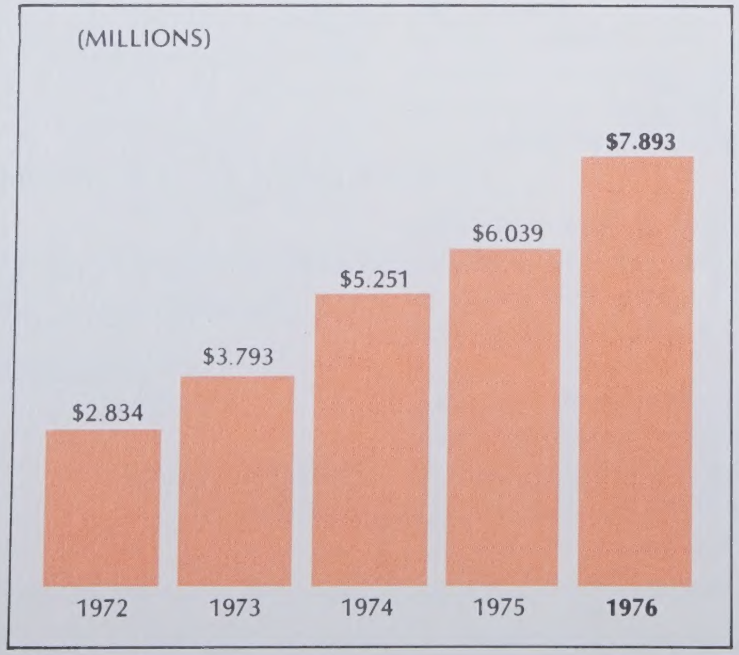
Net Income



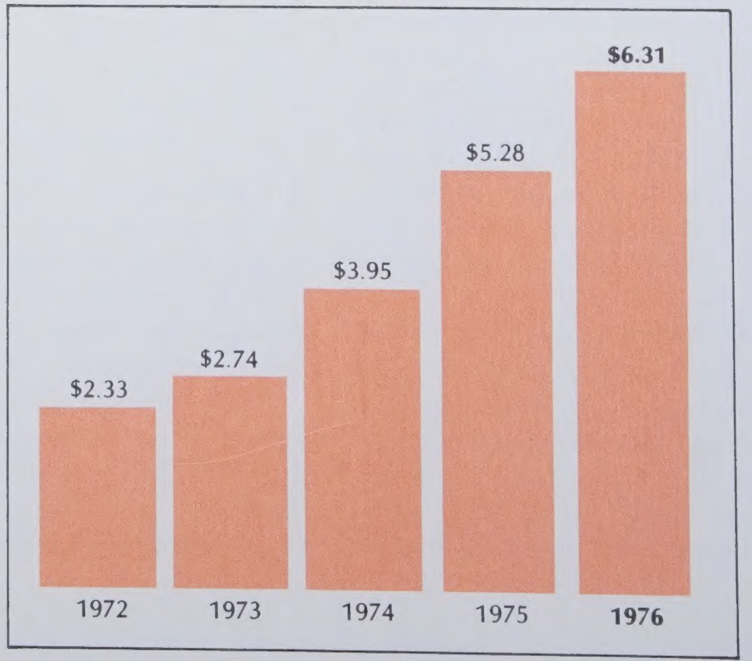
Earnings Per Share



Working Capital



Tangible Equity Per Share



President's letter

In the light of general economic conditions last year, I am well satisfied with the 1976 financial results. Certain of our operations exceeded our expectations while others fell somewhat short of the goals we had set for them and, in consequence, we did not achieve the net income level of 1975.

Despite the absolute decline in net income of $385,907 to $2,249,786 our tangible equity per share increased from $5.28 to $6.31 and our working capital increased by $1,853,998 to $7,893,151 (representing $4.74 per share). We are in a strong financial position to pursue internal growth or to seek acquisitions both in Canada and elsewhere.

MANUFACTURING

1976 was a difficult year for freezer manufacturers. Over the entire year, sales declined for the industry by 24% as compared with 1975, with the rate of decline increasing in the second six months to the level of 37%. Despite this decline in 1976, industry sales were ahead of 1974, confirming that 1975 was an exceptional year for the freezer industry.

Increasing costs and greater competition in 1976 squeezed our profit margins but General Freezer was, nevertheless, able to maintain our market share. We are monitoring our marketing programs continuously and are confident that this approach, together with our cost reduction programs, will enable us to maintain not only our market position, but also an acceptable level of profitability.

The furnace manufacturing operations, Olsen and Duo-Matic, enjoyed a most successful year with substantial increases in the number of units sold. During the year, new marketing techniques were adopted and the sales, accounting and office functions of the two enterprises were merged resulting in increased efficiency and cost savings. We look for continued gains in this area of our activities in 1977.

TRADING

Maso Import operated at a loss in 1976. In part, this was due to a clearance of slow moving and obsolete inventory but, in addition, we also made changes in management and in our marketing techniques. In prior years, Maso had concentrated sales efforts on specific items, often to the detriment of the remaining items which were handled by the company. We now have a balanced product line which will be more appealing to a broader cross-section of retailers and distributors. We believe that this new approach will result in an improved performance for Maso in 1977.

Manoir International, Inc. has now expanded its sale of compressors to wholesalers in addition to primary manufacturers. The company is also selling the Duo-Matic combination furnace in the United States and we are encouraged by the reception which that product has received.

The downturn in the freezer industry in Canada, previously mentioned, reduced the sales of compressors and this, together with a strike at one of our major customers, reduced both the level of revenue and earnings for Manoir International (Canada) Ltd. in 1976.

SERVICE

The service group is active in two areas, the larger being television film services and the smaller, a sound recording studio. This group increased its contribution to group revenue and group net income in 1976.

During 1976, we had the pleasure of recording a number of international stars at Eastern Sound including Elton John and it is gratifying that the facilities available at Eastern Sound are becoming internationally known.

MANAGEMENT

It was with deep sorrow that I informed you of the sudden death on July 15, 1976, of my husband and your President, Mr. Pat Clever. I know that those of you who were privileged to know him as a person and as a businessman miss his enthusiasm and common sense counsel.

At a meeting of the Board of Directors on August 18, I was elected to the Board and appointed President of the Company. At the same meeting, Mr. Gordon Grahamslaw, previously Treasurer of the Company, was appointed Executive Vice-President and Chief Operating Officer. Mr. Grahamslaw had enjoyed a close relationship with Mr. Clever over the past eight years.

Mr. Grahamslaw and I would like to express our sincere thanks and appreciation to the Directors and all the employees for their support and help during these difficult times.

OUTLOOK

The diversity of our operations, our young but experienced management group and our excellent working capital position equip us, we believe, to handle the uncertainties of the future with confidence and I look for the continued growth of our company, both in sales and net income, during 1977 as we seek out new opportunities and continue to enhance the efficiency of our operations.

Geri Clever

Geraldine Clever
President

Toronto, Ontario
March 4, 1977

Consolidated Statements of Income

For the years ended December 31, 1976 and 1975

	1976	1975
REVENUE FROM SALES AND SERVICES (Note 9)	$33,300,981	$35,033,791
COST OF SALES AND SERVICES	24,152,717	25,597,806
Gross profit	$ 9,148,264	$ 9,435,985
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	5,023,891	4,675,514
Income before provision for income taxes and extraordinary item	$ 4,124,373	$ 4,760,471
PROVISION FOR INCOME TAXES	1,798,844	2,124,778
Income before extraordinary item	$ 2,325,529	$ 2,635,693
EXTRAORDINARY ITEM (Note 3)	75,743	—
Net income for the year	$ 2,249,786	$ 2,635,693
EARNINGS PER SHARE BEFORE EXTRAORDINARY ITEM	$ 1.40	$ 1.59
EARNINGS PER SHARE AFTER EXTRAORDINARY ITEM (Note 3)	$ 1.35	$ 1.59

The accompanying notes to consolidated financial statements are an integral part of these statements.

Auditors' Report

To the Shareholders of
Canadian Manoir Industries Limited:

We have examined the consolidated balance sheets of CANADIAN MANOIR INDUSTRIES LIMITED (a Canada corporation) AND SUBSIDIARIES as of December 31, 1976 and 1975, and the related consolidated statements of income, shareholders' equity and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Canadian Manoir Industries Limited and Subsidiaries as of December 31, 1976 and 1975, and the results of their operations and the changes in their financial position for the years then ended in accordance with generally accepted accounting principles consistently applied during the periods.

Signed: ARTHUR ANDERSEN & CO.
CHARTERED ACCOUNTANTS

Toronto, Ontario
February 11, 1977.

CANADIAN MANOIR INDUSTRIES LIMITED
and subsidiaries

Consolidated Balance Sheets

December 31, 1976 and 1975

Assets

	1976	1975
CURRENT ASSETS:		
Cash and deposit receipts	$ 377,736	$ 510,704
Receivables (Note 4)	4,360,955	6,537,550
Inventories (Note 4)	8,355,914	7,542,524
Prepaid expenses	144,091	167,402
Total current assets	$13,238,696	$14,758,180
LONG-TERM INVESTMENT in Toromont Industries Ltd., at cost (Note 3)	$ —	$ 2,094,316
PROPERTY, PLANT AND EQUIPMENT, at cost (Notes 4 and 5):		
Land	$ 90,745	$ 90,745
Buildings	2,541,876	2,456,316
Equipment	3,027,824	2,875,795
Leasehold improvements	359,665	349,148
	$ 6,020,110	$ 5,772,004
Less — Accumulated depreciation and amortization	2,845,197	2,520,838
	$ 3,174,913	$ 3,251,166
	$16,413,609	$20,103,662

Approved on behalf of the Board:
(Signed) G. Clever, Director
(Signed) D.L. Sinclair, Director

Liabilities

	1976	1975
CURRENT LIABILITIES:		
Bank advances (Note 4)	**$ 1,311,885**	$ 742,628
Payables and accrued liabilities	**3,538,809**	6,618,292
Income taxes	**70,851**	684,107
Current portion of long-term debt (Note 5)	**424,000**	674,000
Total current liabilities	**$ 5,345,545**	$ 8,719,027
LONG-TERM DEBT, less current portion included above (Notes 3, 4 and 5)	**304,000**	2,415,500
DEFERRED INCOME TAXES	**266,250**	212,250
SHAREHOLDERS' EQUITY, per accompanying statements	**10,497,814**	8,756,885
	$16,413,609	$20,103,662
Tangible equity per issued common share	**$ 6.31**	$ 5.28

The accompanying notes to consolidated financial statements are an integral part of these balance sheets.

Consolidated Statements of Shareholders' Equity

For the years ended December 31, 1976 and 1975

	1976	1975
CAPITAL STOCK (Notes 6 and 8):		
Authorized — 3,000,000 Class A Common Shares and 3,000,000 Class B Common Shares without nominal or par value (1975 — 3,000,000 Common Shares, par value $1.00 each)		
Issued —		
1,657,080 Common Shares	$ —	$ 1,657,080
586,530 Class A and 1,077,650 Class B Common Shares	1,664,940	—
	$ 1,664,940	$ 1,657,080
CONTRIBUTED SURPLUS:		
Balance, beginning of year	$ 87,924	$ 83,174
Add — Excess of issue price over par value of common shares (Note 8)	9,600	4,750
Balance, end of year	$ 97,524	$ 87,924
RETAINED EARNINGS:		
Balance, beginning of year	$ 7,011,881	$ 4,787,964
Add —		
Net income for the year	$ 2,249,786	$ 2,635,693
Deduct —		
Tax-deferred dividends (1976 — 27.675¢: 1975 — 20¢)	$ 375,546	$ 331,166
Taxable dividends (1976 — 17¢: 1975 — nil)	99,619	—
Tax paid on portion of 1971 undistributed income on hand of the Company and certain subsidiaries, net	51,152	80,610
	$ 526,317	$ 411,776
Balance, end of year (Note 7)	$ 8,735,350	$ 7,011,881
SHAREHOLDERS' EQUITY	$10,497,814	$ 8,756,885

The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Changes in Financial Position

For the years ended December 31, 1976 and 1975

	1976	1975
WORKING CAPITAL, beginning of year	$ 6,039,153	$ 5,250,736
SOURCE OF FUNDS:		
Operations —		
Income before extraordinary item	$ 2,325,529	$ 2,635,693
Charges not requiring an outlay of funds —		
Depreciation and amortization	389,992	333,287
Increase in deferred income taxes	54,000	85,050
	$ 2,769,521	$ 3,054,030
Proceeds of sale of long-term investment, net (Note 3)	2,018,573	—
Issue of common shares (Note 8)	17,460	8,550
Increase in long-term debt	—	1,263,500
	$ 4,805,554	$ 4,326,080
APPLICATION OF FUNDS:		
Purchase of long-term investment, net	$ —	$ 2,094,316
Additions to property, plant and equipment, net	313,739	1,031,571
Decrease in long-term debt	2,111,500	—
Tax-deferred dividends	375,546	331,166
Taxable dividends	99,619	—
Tax paid on portion of 1971 undistributed income on hand of the Company and certain subsidiaries, net	51,152	80,610
	$ 2,951,556	$ 3,537,663
Increase in working capital	$ 1,853,998	$ 788,417
WORKING CAPITAL, end of year	$ 7,893,151	$ 6,039,153

The accompanying notes to consolidated financial statements are an integral part of these statements.

CANADIAN MANOIR INDUSTRIES LIMITED
and subsidiaries

Notes

TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1976 and 1975

1. SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

(a) Principles of Consolidation

(i) The financial statements of Canadian Manoir Industries Limited (the "Company") as of December 31, 1976 and 1975, are consolidated with those of its subsidiaries:

Companies	Divisions
Manufacturing	
Duo-Heet Distributors Limited (Note 2)	Duo-Matic Division of Duo-Heet Distributors Limited (Note 2)
General Freezer Limited (Note 2)	
Ideal ABC Limited (Note 2)	
W.H. Olsen Manufacturing Company Limited	
Trading	
Kates International Corporation Ltd.	
Manoir International, Inc.	
Manoir International (Canada) Ltd.	
Maso Import Ltd.	
Service	
Atlas Customs Brokers Limited	Comprehensive Distributors Division of Canadian Manoir Industries Limited
Eastern Sound Company Limited	
Teleprint of Chicago, Inc.	
Teleprint of Los Angeles, Inc.	
Teleprint of New York, Inc.	

(ii) All significant inter-company transactions have been eliminated in the consolidated financial statements.

(iii) Translation of the accounts of U.S. subsidiaries both during the years and at December 31, 1976 and 1975, was made at par.

(b) Inventories

Inventories are valued at the lower of first-in, first-out cost or net realizable value.

(c) Depreciation and Amortization

Provisions for depreciation are determined on either the straight-line basis or declining balance basis over the expected average useful lives of the asset groups. Leasehold improvements are amortized on a straight-line basis over the terms of the respective leases.

(d) Acquisitions

Acquisitions are accounted for by the purchase method of accounting. Goodwill, the excess cost over the fair value, as determined by the Directors, of the net tangible assets acquired, has been charged to Retained Earnings in the years in which acquisitions were made.

(e) Income Taxes

Income taxes are provided for on the basis of accounting income and timing differences between accounting income and taxable income are reflected in Deferred Income Taxes. The Company accrues for withholding tax on foreign income as earned.

(f) Contingent Claims Receivable

Receivables on contingent claims are recognized only when the amounts of such claims have been confirmed.

(g) Earnings per Share

The earnings per share calculations are based on the weighted average of common shares outstanding at the end of each month during the years. The dilutive effect on earnings per share of stock options outstanding is immaterial.

2. CORPORATE REORGANIZATION

As of December 31, 1976, the net assets and operations of the Duo-Matic Division of General Freezer Limited were transferred to Duo-Heet Distributors Limited. On January 1, 1977, General Freezer Limited and Ideal ABC Limited were amalgamated under the name of General Freezer Limited.

3. LONG-TERM INVESTMENT

During 1975 the Company acquired 704,200 common shares of Toromont Industries Ltd. representing a 15.5% interest at a net cost of $2,094,316. The Company's bid for an additional 1,000,000 shares was unsuccessful. In 1976 the Company sold substantially all of its shares of Toromont for $2,018,573 giving rise to an extraordinary loss of $75,743. This loss has not been reduced for any potential capital gains tax recovery, as such recovery is contingent upon the realization of future capital gains.

4. BANK ADVANCES

The Company's operating line of credit of $3,750,000, bearing interest at the prime rate, and its long-term bank loans are secured by certain accounts receivable and inventories and a first floating charge debenture of $6,000,000 covering all of the assets and property of the Company and certain of its subsidiaries. In addition, the Company has agreed not to hypothecate the property, plant and equipment of the Company and certain of its subsidiaries without formal approval of the bank.

5. LONG-TERM DEBT

	1976	1975
Payable by the Company:		
Bank loans —		
Bearing interest at 2% in excess of prime bank rate, repayable in quarterly instalments of $62,500	$ —	$1,937,500
Bearing interest at 1½% in excess of prime bank rate, repayable in quarterly instalments of $88,000	**616,000**	968,000
Bearing interest at 1¼% in excess of prime bank rate, repayable in quarterly instalments of $12,000	**84,000**	132,000
	$ 700,000	$3,037,500
Payable by a Subsidiary:		
8.9% Loan from Federal Business Development Bank, payable in monthly instalments of $2,000 plus interest, due 1978	**28,000**	52,000
	$ 728,000	$3,089,500
Less — Current portion payable within one year	**424,000**	674,000
	$ 304,000	$2,415,500

The loan from the Federal Business Development Bank is secured by certain assets of a subsidiary.

6. SHARE CAPITAL

Pursuant to Supplementary Letters Patent dated June 18, 1976, the prior 3,000,000 Common Shares of the par value of $1 each, both issued and unissued, were changed into 3,000,000 Class A Common Shares without nominal or par value. Further, the authorized capital of the Company was increased by creating 3,000,000 Class B Common Shares without nominal or par value.

The Class A and the Class B Common Shares are freely interconvertible with the same rights except as to dividends. Holders of Class A Common Shares receive taxable dividends whereas holders of Class B Common Shares receive tax-deferred dividends.

7. DIVIDEND RESTRICTIONS

In accordance with the Anti-Inflation Act Regulations, the Company is restricted to maximum taxable dividend payments totalling 39.6¢ per share, or 33.7¢ per share on a tax-deferred basis, during the year ending October 13, 1977. On December 30, 1976, the Company paid a tax-deferred dividend of 7.225¢ per share and a taxable dividend of 8.5¢ per share. For the year ended October 13, 1976, the restriction on dividends payable was 35.1¢ or 29.9¢ per share respectively.

8. EMPLOYEE BENEFIT PLANS

(a) Stock Option Plan

As of December 31, 1976, 5,700 Class A Common Shares at $3.60 per share (1975 — 8,000 at $2.25 per share and 7,000 at $3.60 per share) were reserved under a stock option plan for certain officers and employees of the Company and its subsidiaries. During 1976, 7,100 (1975 — 3,800) optioned shares were issued for a cash consideration of $17,460 (1975 — $8,550) and a total of 2,200 (1975 — 900) optioned shares were cancelled. Prior to June 18, 1976, when options were exercised, amounts received in excess of the par value of the common shares were credited to contributed surplus.

(b) Retirement Plan

The Company has a contributory retirement plan for certain officers and employees of the Company and its subsidiaries. In 1976 a provision of $26,703 (1975 — $30,509) was made for the current cost of the plan. As of December 31, 1976 and 1975, there was no unfunded past service liability with respect to the plan.

9. REVENUE

Consolidated revenue is divided in the following proportions:

	1976	1975
Manufacturing	**62%**	62%
Trading	**28**	30
Service	**10**	8
	100%	100%

10. STATUTORY INFORMATION

The income statements include the following expenses:

	1976	1975
Interest:		
Long-term debt	**$182,198**	$255,508
Other, net	**175,108**	119,229
	$357,306	$374,737
Depreciation and amortization	**$389,992**	$333,287

Remuneration of Directors and Officers:

	As Directors		As Officers	
	Number	Remuneration	Number	Remuneration
1976	5	$12,900	3	$144,103
1975	5	$12,225	3	$133,833

Two Officers were also Directors of the Company.

Canadian Manoir
INDUSTRIES LIMITED

DIRECTORS
S.G. Bickley Montreal
J.S. Bull Toronto
Mrs. G. Clever Toronto
G. Grahamslaw Toronto
D.L. Sinclair Toronto

AUDIT COMMITTEE
J.S. Bull Toronto
G. Grahamslaw Toronto
D.L. Sinclair Toronto

OFFICERS
Mrs. G. Clever President
G. Grahamslaw
Executive Vice-President and Chief Operating Officer
H.L. Beck, Q.C. Secretary

ANNUAL GENERAL MEETING
The Annual General Meeting will be held in the Library Room of the Royal York Hotel, Toronto, at 4:00 p.m. on Monday, May 9, 1977.

BANKERS
The Toronto-Dominion Bank Toronto
Chase Manhattan Bank New York

REGISTRAR
Canada Permanent Trust Company Toronto

TRANSFER AGENT
Canada Permanent Trust Company Toronto

LAWYERS
Davies, Ward & Beck Toronto
Byers, Casgrain, McNally, Dingle, Benn & Lefebvre Montreal
Guggenheimer & Untermyer New York

AUDITORS
Arthur Andersen & Co. Toronto

SHARE LISTING
The Class A and Class B Common Shares of the Company are listed on the Toronto Stock Exchange.

HEAD OFFICE: 2 Glengrove Ave. West, Toronto M4R 1N4 (416) 487-5363